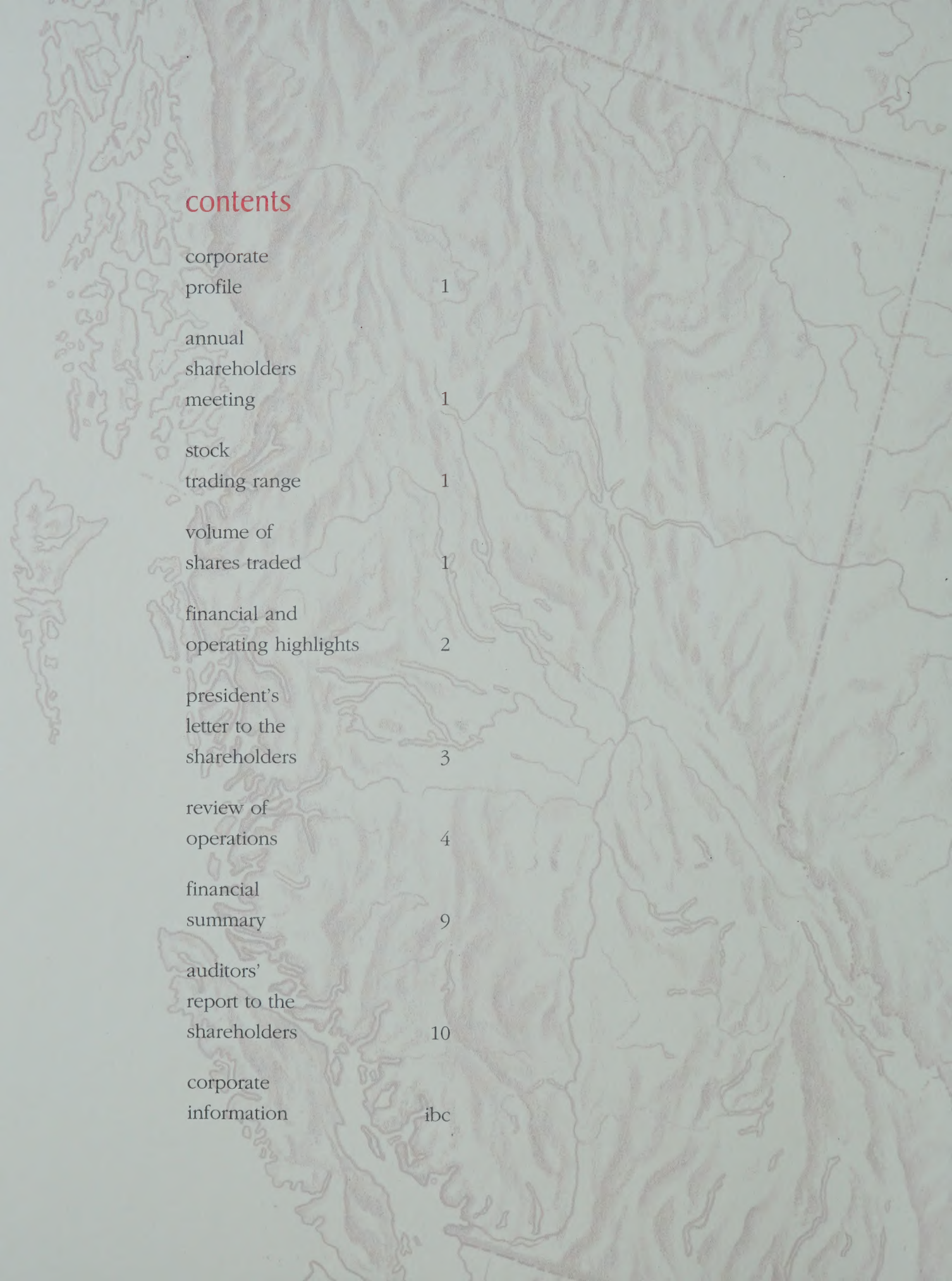


AR61

PanOil Resources Ltd.

Whisper Business Reference Room
University of Alberta
118 Business Building
Edmonton, Alberta T6G 2R6

1996
Annual Report

The background of the entire page is a detailed topographic map of a mountainous region, likely in the Pacific Northwest. The map features numerous contour lines, peaks, and valleys, rendered in a light brown and tan color palette. The terrain is rugged, with many sharp peaks and deep valleys. The map is oriented with North at the top.

contents

corporate
profile 1

annual
shareholders
meeting 1

stock
trading range 1

volume of
shares traded 1

financial and
operating highlights 2

president's
letter to the
shareholders 3

review of
operations 4

financial
summary 9

auditors'
report to the
shareholders 10

corporate
information ibc

corporate profile

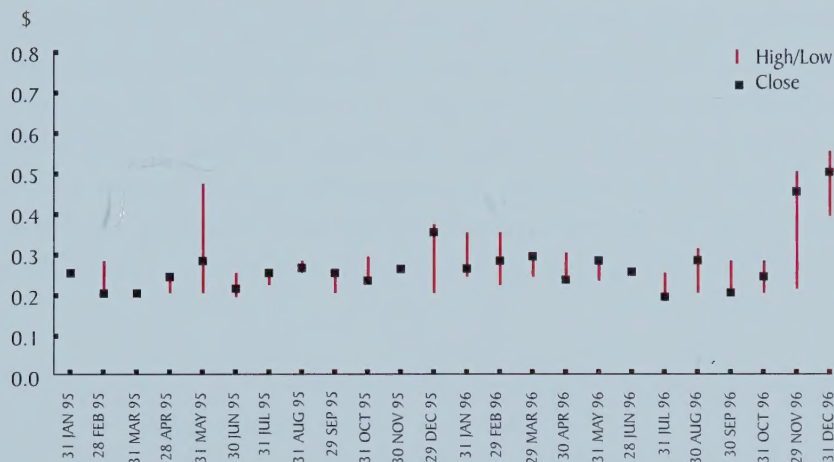
PanOil Resources Ltd. is an independent Canadian Corporation active in exploration, development and production of petroleum and natural gas products in western Canada. The common shares of PanOil are listed on the Alberta Stock Exchange and trade under the symbol "PRE".

Winspear Business Reference Room
University of Alberta
1-18 Business Building
Edmonton, Alberta T6G 2R6

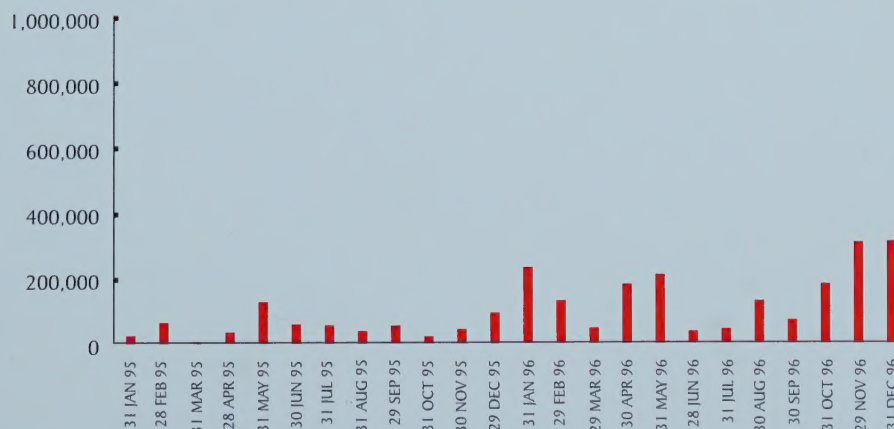
annual shareholders meeting

The annual general meeting of shareholders is scheduled for June 24, 1997, at 10:00 a.m., at the Calgary Petroleum Club, Viking Room, Calgary, Alberta.

stock trading range



volume of shares traded



financial and operating highlights

Financial	1996	1995
Revenue	311,125	96,088
Shareholders' Equity	2,948,994	1,869,126
Working Capital	1,077,282	459,805
Common Shares	10,025,000	10,000,000
Common Shares to be issued by Special Warrant	3,117,500	0
Debt	0	0
TOTAL ASSETS	3,456,270	2,601,691

Operations	1996	1995
Mcf of Gas produced per day	750	123
Proven Gas Reserves (Bcf)	2.6	2.5
Proven and Probable Gas Reserves (Bcf)	4.2	3.0

president's letter to the shareholders

In 1996, PanOil Resources Ltd. accomplished the main elements of its production goals. Specifically, the Company increased its revenue by over 300%.

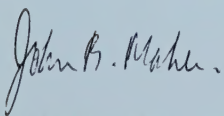
In last year's report, we indicated that upon completion of the final stage of acquisition at Stirling, Alberta, PanOil would have approximately a 25% working interest in the Field. The final percentage attained was actually 28%, with PanOil as operator of the project. Plans to optimize the Field began in December 1996 and are still proceeding. The latest independent engineering report gives the Field a remaining life of 33 years. The optimization plan will reduce the life of the current proven and probable producing reserves to 14 years, but exploration mapping indicates that additional reserves are likely to be present. The stable base of production and revenue from the Stirling Field now permits the Company to pursue its next major goal of finding significant new hydrocarbon resources.

In November, the Company signed an exploration joint venture agreement with a major producer on a very large gas prospect (the Orion Prospect) in northern British Columbia. In December, the Company privately placed 3,117,500 flow-through common share special warrants to help finance drilling on the prospect. An independent review of the prospect indicates very significant volumes of possible gas reserves on the prospect lands. Possible reserves are interpreted from geological and geophysical data but have not been drilled and are therefore in a higher-risk category than proven and probable reserves. Two wells are planned for drilling at Orion in 1997 or early 1998, with the exact timing dependent on the availability of drilling rigs and surface access, which is generally restricted to the winter months due to muskeg conditions. Subsequent to year end, PanOil drilled and flow-tested the first discovery well on the Orion Prospect.

During 1997, PanOil Resources Ltd. will continue to focus on maximizing returns from our Stirling Field, and on establishing new reserves through exploration in other areas.

We welcome to the Board of Directors Mr. Greg Schroeder, Vice President of Nova Developments Limited. Mr. Garth Farr, who resigned as Chairman effective December 31, 1996, will remain a member of the Board of Directors. On behalf of all shareholders, we extend thanks to Mr. Farr for his efforts on behalf of the Company. We also thank Mrs. Candace Lenz, our Executive Assistant, for her contributions to the Company. Candace will be leaving us shortly to have her first child.

Respectfully yours,



John B. Maher
Chairman, President & C.E.O.
April 25, 1997

review of operations

Stirling, Alberta

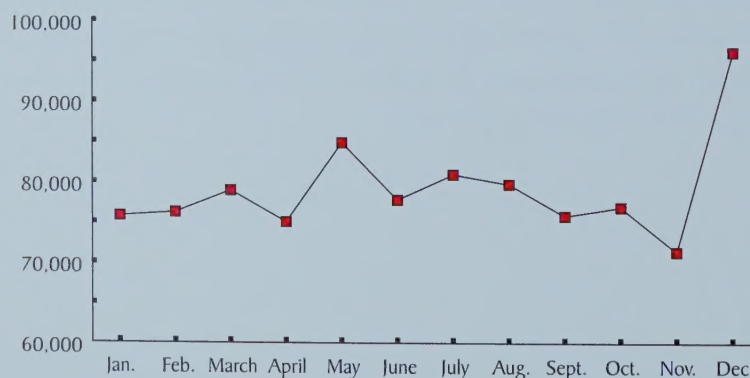
During the year, the acquisition of the Stirling property was completed and several production related improvements were put in place. A new five-year blended gas contract was signed, which resulted in an average netback to the Company of \$1.60 per gigajoule. The flowline for production from the fourth well was completed and work commenced to significantly increase gas production from the four wells in the Field by installing new compression and dehydration facilities. New compression was installed during December and dehydration equipment should be installed in the first half of 1997. Initial results are positive, as reflected by increased production in December, 1996, (see Figure 1) when the first of the facility improvements was installed. As reported earlier in the year, the four wells which are now tied in to production facilities flowed during tests at rates of 1.2 Mmcf/d, 1.7 Mmcf/d, 1.6 Mmcf/d and 1.4 Mmcf/d for a total of 5.9 Mmcf/d. The new facilities are designed to handle a production rate of 5.0 Mmcf/d. We forecast a significant increase in production and revenue from the Field in 1997.

An independent engineering report of our Stirling property, dated January 1, 1997, has assigned a reserve life of 33 years to the existing pool. These data, along with the Company's own analysis, indicate a potential to significantly increase production revenue from the proven gas pool. The new production facilities will do this and thereby reduce the life of the current proven and probable reserves to 14 years. However, in addition to the current proven and probable reserves, potential for oil and gas production is present in several other reservoirs in the Field area.

In summary, Stirling has provided a significant increase to the asset value of PanOil, and further upside is indicated as more reserves remain to be discovered. Figure 2 shows the extent of the producing sand at Stirling and the location of the Company's land and facilities.

Gross Production for the Stirling Field 1996 (Figure 1)

Mcf per month



TWP 7 RGE 19W4

TWP 7 RGE 18W4



Figure 2: The producing sand at Stirling extends across most of the Company's 24,320 acres.

Orion, British Columbia

In November, the Company signed an exploration agreement which gave the Company a large seismic database and the right to drill two wells on two exploration land parcels totalling approximately 11,000 acres. The Company has a 40% working interest before payout and will have an 18% working interest after payout in the Orion North and Orion South prospects. Both prospects show significant Devonian reef anomalies on geological and geophysical mapping, and potential also exists for oil and gas in Cretaceous and Mississippian reservoirs which overlie the Devonian. Although these are high-risk and high-cost prospects, success will have a major impact on the asset value of PanOil.

The Company contracted an independent petroleum exploration consulting firm to study the Company's Orion Prospect. The resulting report indicates significant possible reserves in the Upper Devonian and viable high reserve, high rate gas target reservoirs in the Middle Devonian.

The Orion Prospect is especially attractive as it is located near two of the largest Middle Devonian gas fields in British Columbia and is on trend with five Upper Devonian gas fields (see Figure 3). The Upper Devonian Jean Marie gas trend has become increasingly attractive as horizontal drilling technology permits the drilling of wells which can deliver gas volumes exceeding 5 Mmcf/d, compared with vertical wells which commonly flow at about 1 Mmcf/d. A summary of existing Jean Marie gas wells and their general location relative to our Orion property is given in Figure 3. It is important to note that most of the new well licenses for development in the existing Jean Marie gas fields are for horizontal wells.

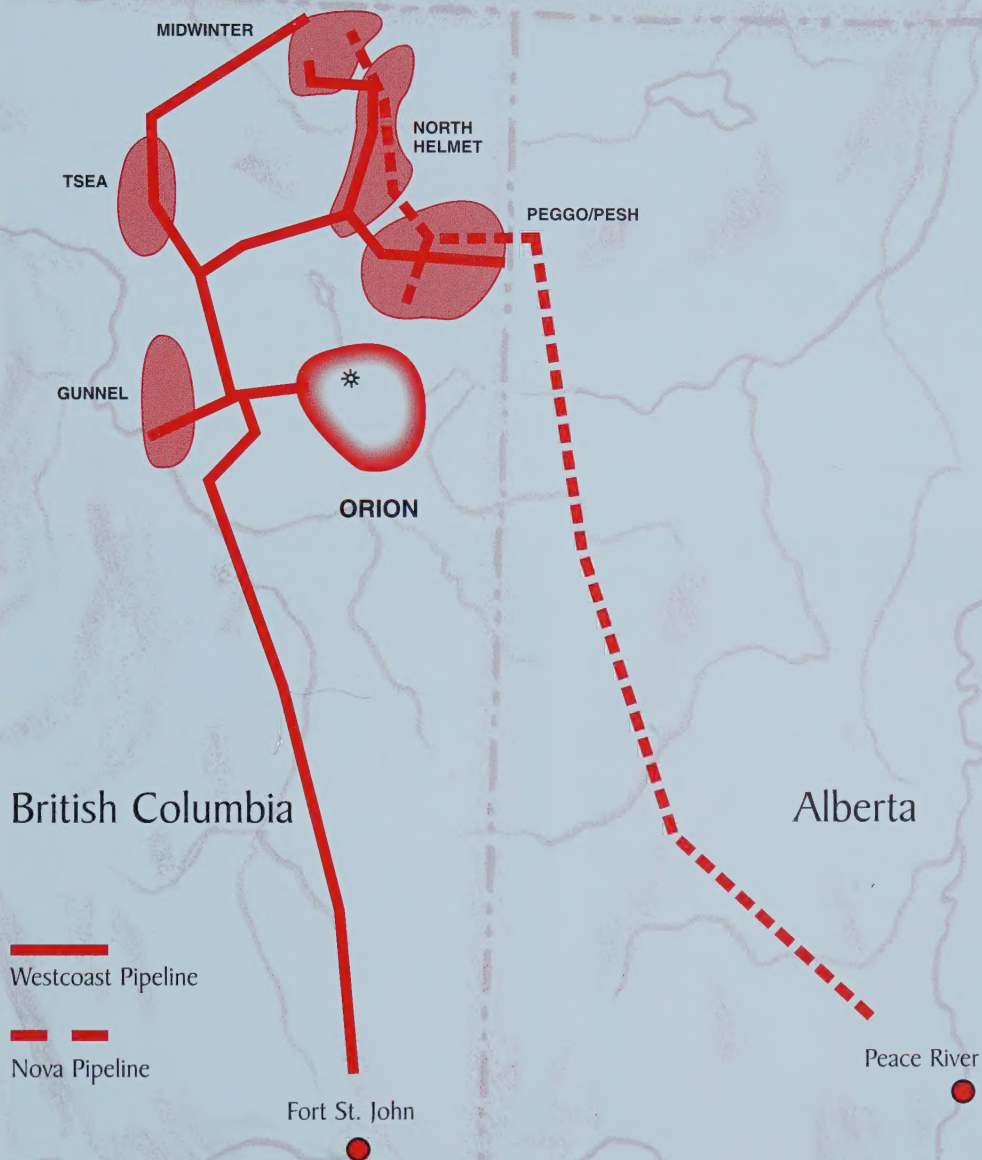
In addition to the Jean Marie potential, Orion has several attractive Lower Devonian reef prospects which are similar to some of the large, highly productive reefs in northeastern British Columbia. Figure 4 illustrates a typical prospect as identified on seismic, shows the lands on which the Company will drill, and shows the location of some of the seismic data which have been acquired.

Much of the ground surface at Orion is characterized by muskeg which generally permits only limited access during winter months. Drilling is restricted to December through March but year round access is not a problem once production facilities are installed.

To finance the exploratory drilling planned for Orion, the Company completed a private placement of flow-through common share Special Warrants in December, 1996, with drilling to begin as soon as a rig was available. Subsequent to year-end, PanOil licensed its first well at Orion in early March and began drilling a well at d-80-E 94-I-15. Because of spring breakup, drilling was suspended in late March with casing set in the gas-bearing Jean Marie formation. A horizontal well bore was started but not completed as planned. Prior to rig release, the well tested gas at significant rates and the well is now standing cased and awaiting completion. Additional drilling is planned for later in 1997 and 1998, including a well to test one of the Middle Devonian deep reef anomalies.

The Orion project area is well served by gas pipelines, and wells could be on production in early 1998.

Northwest Territories



Jean Marie Producing Pools					
	Mmc/d	Wells	Average/Well Mmc/d	Best Well Mmc/d 12/96	New Well Licences
MIDWINTER	34.52	23	1.50	5.2	14
NORTH HELMET	61.54	31	1.99	5.9	9
PEGGO/PESH	47.00	39	1.21	9.7	16
TSEA	1.10	1	1.10	1.1	0
GUNNEL	4.70	6	0.78	1.2	5

Figure 3: Regional situation of the Orion Prospect.

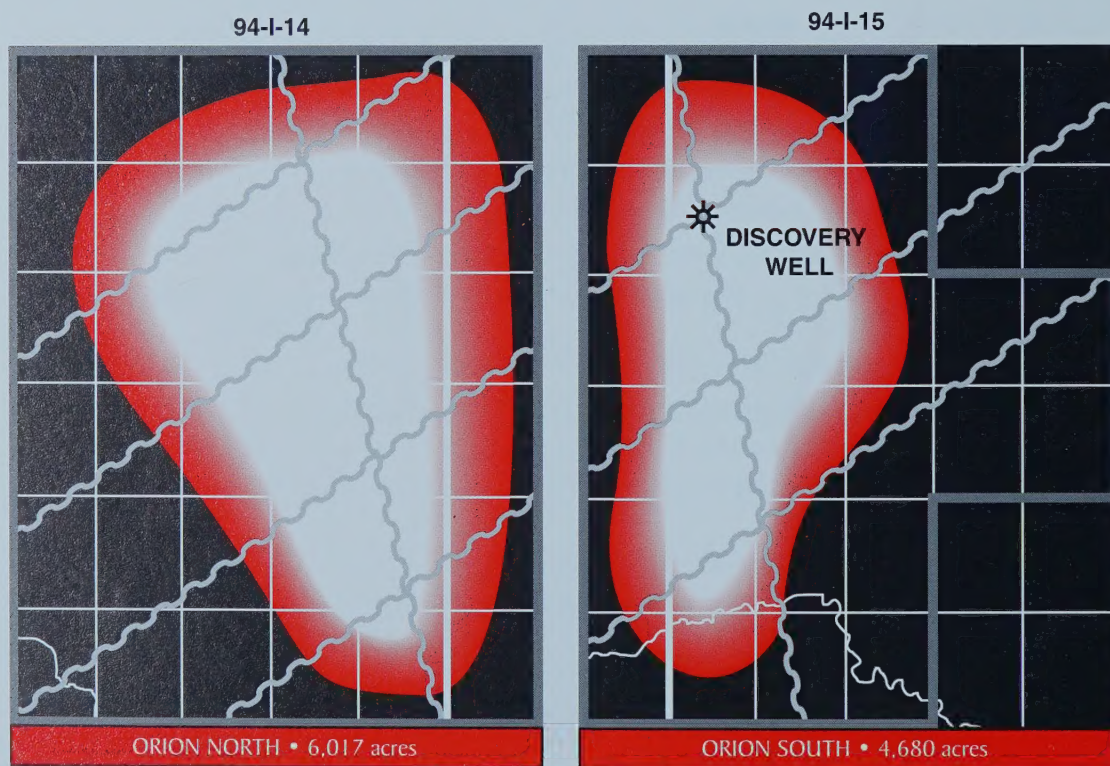
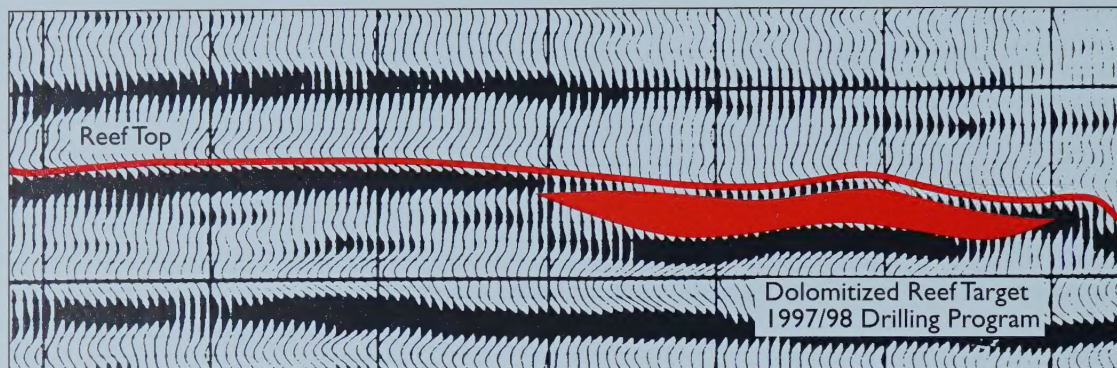


Figure 4: Orion Prospect; land overview with seismic lines indicated and a typical reef target.

financial summary

As summarized at the beginning of this report, the Company increased revenue and production during the year. These increases came solely from the Stirling Field. Capital expenditures were close to budget, and general and administration expenses were lower than forecast.

Private Placement

In December, the Company, through a private placement memorandum sold 3,117,500 flow-through Special Warrants (\$0.40 per Special Warrant) to incur Canadian Exploration Expense which was renounced to subscribers effective December 31, 1996.

The Special Warrants are convertible into 3,117,500 common shares of the Company when the final offering documentation is approved by the Alberta Securities Commission upon application in 1997. As of the date of this report the application has been submitted to the commission and is pending approval. In addition two Special Warrants give the subscriber the right to acquire one additional share of PanOil at a price of \$0.75 until June 30, 1997.

The funds from the Special Warrants are allocated to exploration drilling on the Orion Prospect.

Capital Expenditures

PanOil incurred the following capital expenditures in 1996:

Property Acquisition	\$ 215,597
Land and Lease	67,332
Exploration and Development Expense	382,959
TOTAL	\$ 665,888

Exploration and Development Expense includes capitalized engineering, geological and geophysical expenditures of \$180,725 to evaluate oil and gas acquisitions.

General and Administrative

General and administrative expenses amounted to \$151,699 in 1996, compared with \$177,341 in 1995, and are estimated to be \$250,000 in 1997.

Outlook

Capital expenditures for land acquisition, exploration and development in 1997 have been budgeted at \$2,500,000. Production revenues from the Stirling property are forecast to exceed \$500,000 as a result of modest investment in additional facilities.

Continued exploration activity will require additional financing in 1997. It is anticipated that this will be accomplished through joint venturing with partners and/or the issuing of additional equity as appropriate.

Increased production from our Stirling property and a gas discovery in northern British Columbia will make 1997 an exciting year.

auditors' report to the shareholders

We have audited the balance sheets of PanOil Resources Ltd. as at December 31, 1996 and 1995 and the statements of operations and deficit and changes in financial position for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1996 and 1995 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.



Chartered Accountants

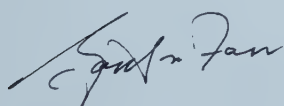
Calgary, Canada
March 12, 1997

balance sheet

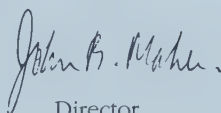
December 31, 1996 and 1995	1996	1995
Assets		
Current assets		
Cash and short-term deposits	\$ 1,209,599	\$ 1,041,008
Accounts receivable	356,934	130,798
Prepaid expenses	4,025	10,564
	1,570,558	1,182,370
Capital assets (note 2)	1,885,712	1,419,321
	\$ 3,456,270	\$ 2,601,691
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 493,276	\$ 722,565
Provision for site restoration costs	14,000	10,000
Shareholders' equity		
Share capital (note 3)	3,574,340	2,443,400
Deficit	(625,346)	(574,274)
	2,948,994	1,869,126
Commitments (note 5)		
	\$ 3,456,270	\$ 2,601,691

See accompanying notes to financial statements.

Approved by the Board of Directors



Director



Director

statements of operations and deficit

Years ended December 31, 1996 and 1995	1996	1995
Revenue		
Petroleum and natural gas	\$ 347,383	\$ 21,694
Royalties	(54,821)	(3,449)
Interest	18,563	77,843
	311,125	96,088
Expenses		
Production	80,539	2,322
Depletion, depreciation and amortization	129,989	4,418
Write-down of capital assets		82,824
General and administrative	151,669	177,341
	362,197	266,905
Net loss for the year	(51,072)	(170,817)
Deficit, beginning of year	(574,274)	(403,457)
Deficit, end of year	\$ (625,346)	\$ (574,274)
Net loss per share	\$ (0.01)	\$ (0.02)

See accompanying notes to financial statements.

statements of changes in financial position

Years ended December 31, 1996 and 1995	1996	1995
Cash provided by (used in)		
Operations		
Net loss for the year	\$ (51,072)	\$ (170,817)
Items not involving cash		
Depletion, depreciation and amortization	129,989	4,418
Write-down of capital assets		82,824
Funds from operations	78,917	(83,575)
Changes in non-cash working capital	179,880	58,716
	258,797	(24,859)
Financing		
Issue of special warrants and common shares	1,130,940	
Receipt of note receivable		202,000
Repayment of bank loan		(202,000)
Cancellation of options		(15,000)
	1,130,940	(15,000)
Investments		
Capital dispositions	73,508	473,088
Capital expenditures	(665,888)	(1,170,195)
	(592,380)	(697,107)
Change in non-cash working capital	(628,766)	628,766
	(1,221,146)	(68,341)
Increase (decrease) in cash	168,591	(108,200)
Cash, beginning of year	1,041,008	1,149,208
Cash, end of year	\$ 1,209,599	\$ 1,041,008

See accompanying notes to financial statements.

Years ended December 31, 1996 and 1995



Significant accounting policies

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in Canada.

(a) Petroleum and natural gas operations

The Company follows the full cost method of accounting whereby all costs associated with the exploration for and development of petroleum and natural gas reserves are capitalized. Such costs include land acquisition costs, geological and geophysical costs, lease rental costs on non-producing properties, costs of both productive and unproductive drilling, production equipment and overhead charges directly related to these activities, net of government grants. Gains or losses are not recognized upon disposition of petroleum and natural gas properties unless crediting the proceeds against accumulated costs would result in a change in the rate of depletion of 20 percent or more.

Accumulated costs, less the costs of acquisition of unproved properties, are depleted and depreciated using the unit-of-production method based on total proved reserves after royalties. Furniture and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets.

The costs of acquiring and evaluating unproved properties are initially excluded from depletion calculations. These properties are assessed periodically to ascertain whether impairment has occurred. When proven reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of impairment is added to the costs subject to depletion.

The net carrying cost of the Company's petroleum and natural gas properties is limited to an estimated recoverable amount being the aggregate of future net revenues from proved reserves, less future site restoration and capital costs, the costs of undeveloped properties net of allowances, future general and administrative costs, financing costs and income taxes. Future net revenues are calculated using prices and costs in effect at the year end without escalation or discounting. Write downs of petroleum and natural gas properties as a result of applying this cost recovery test and impairments of unproven properties are classified as depletion, depreciation and amortization. Recently acquired properties are generally excluded from the cost recovery test for two years after acquisition.

(b) Joint ventures

Substantially all of the exploration, development and production activities of the Company are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

(c) Provision for site restoration costs

Estimated future site restoration costs are provided for using the unit-of-production method. Costs are estimated by the Company based on current regulations, costs, technology and industry standards. The annual charge is included in the provision for depletion, depreciation and amortization. Actual site restoration costs are charged to the accumulated provision account as incurred.

(d) Per share information

Loss per common share for 1996 is calculated using 10,012,500 (1995 - 10,000,000) common shares, being the weighted average number of common shares outstanding.

(e) Measurement uncertainty

The amounts recorded for depletion and depreciation of property, plant and equipment and the provision for future site restoration are based on estimates. The ceiling test is based on estimates of proven reserves, production rates, petroleum and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

2 Capital assets

	1996	1995
Petroleum and natural gas properties	\$ 2,444,794	\$ 1,853,425
Furniture and equipment	12,277	11,266
	2,457,071	1,864,691
Accumulated depletion and depreciation	(571,359)	(445,370)
	\$ 1,885,712	\$ 1,419,321

At December 31, 1996 the costs of unproved properties not subject to depletion is \$492,000 (1995 - \$538,000). General and administrative costs related to property acquisitions, development and exploration amounted to \$180,725 (1995 - \$145,000).

3 Share capital

(a) Authorized

An unlimited number of common voting shares without nominal or par value

An unlimited number of preferred shares, issuable in series.

(b) Issued

	Number	Amount
Common shares		
Balance, December 31, 1994 (1)	10,000,000	\$ 2,458,400
Purchase and cancellation of options		(15,000)
Balance, December 31, 1995 (1)	10,000,000	2,443,400
Issued on exercise of employee stock options	25,000	5,000
Balance, December 31, 1996 (1)	10,025,000	2,448,400
Special Warrants		
Flow-through common share special warrants, net of issue costs of \$121,060 (note 5(b)) (2)	3,117,500	1,125,940
Total, December 31, 1996		\$ 3,574,340

(1) At December 31, 1996 1,808,218 (1995 - 1,808,218) common shares issued are held in escrow and may not be released from escrow and traded without the written consent of the Alberta Securities Commission and the Alberta Stock Exchange.

(2) In December 1996 the Company entered into an agreement to issue 3,117,500 Special Warrants at \$0.40 per Special Warrant. Each Special Warrant entitles the holder to purchase one common share of the Company for no additional consideration. Special Warrant holders are also entitled to exchange two Special Warrants for one common share of the Company at \$0.75 per common share up to June 30, 1997. Under the agreement, the Agent received an Agent's Option to acquire common shares of the Company equal to 10% of the Special Warrants issued under the agreement, at \$0.40 per common share to December 31, 1997. See also note 5(b).

(c) Incentive stock option plan

At December 31, 1996, there were 1,002,500 (1995 - 825,000) outstanding options granted to officers, directors and employees of the Company with exercise prices ranging between \$0.27 and \$0.50. These options expire on various dates to 2001.

4 Related party transactions:

Certain Company officers, and a corporation of which an officer of the Company is a director and officer, may participate with the Company in joint venture operations under the same terms and conditions as those available to third parties. A corporation owned by an officer of the Company receives a gross overriding royalty on all resource properties acquired by the Company.

5 Commitments:

(a) Operating lease

The Company is committed to payments under operating leases for equipment as follows:

1997	\$ 40,332
1998	40,332
1999	40,332
2000	36,971

(b) Flow-through agreement

The Company entered into a flow-through agreement in December 1996 to finance future exploration and development activities. Under the terms of the agreement, the Company has committed to spend \$1,247,000 in Canada on exploration and development programs prior to December 31, 1997 and renounce the related tax benefits.

6 Income taxes

The Company has non-capital losses and resource pools of approximately \$3.2 million available to reduce future years taxable income.

7 Financial instruments

The carrying values of the Company's financial assets and liabilities approximate their fair values at December 31, 1996 and 1995.

corporate information

Directors and Officers

John B. Maher*
Chairman, President, CEO
Calgary, Alberta

Albert E. Chase*
Director, Ryan Energy Ltd.
Calgary, Alberta

Garth M. Farr
Chairman and CEO
White Bear Energy Services Ltd.
Calgary, Alberta

Wayne R. Sharp*
President, Ramarro Resources Inc.
Calgary, Alberta

W.J. E. (Bud) Shepherdson
Lawyer
Calgary, Alberta

Greg Schroeder
CFO, PanOil Resources Ltd.,
Vice President, Nova Developments Limited
Calgary, Alberta

* Audit Committee member

Abbreviations

Bcf *billion cubic feet of natural gas*
Mcf/d *thousand cubic feet per day*
Mmcf/d *million cubic feet per day*

Auditors

KPMG
Calgary, Alberta

Legal Counsel

Burnet, Duckworth & Palmer
Calgary, Alberta

Banking

Canadian Imperial Bank of Commerce
Calgary, Alberta

Registrar

The R-M Trust Company
Calgary, Alberta

Stock Exchange Listing

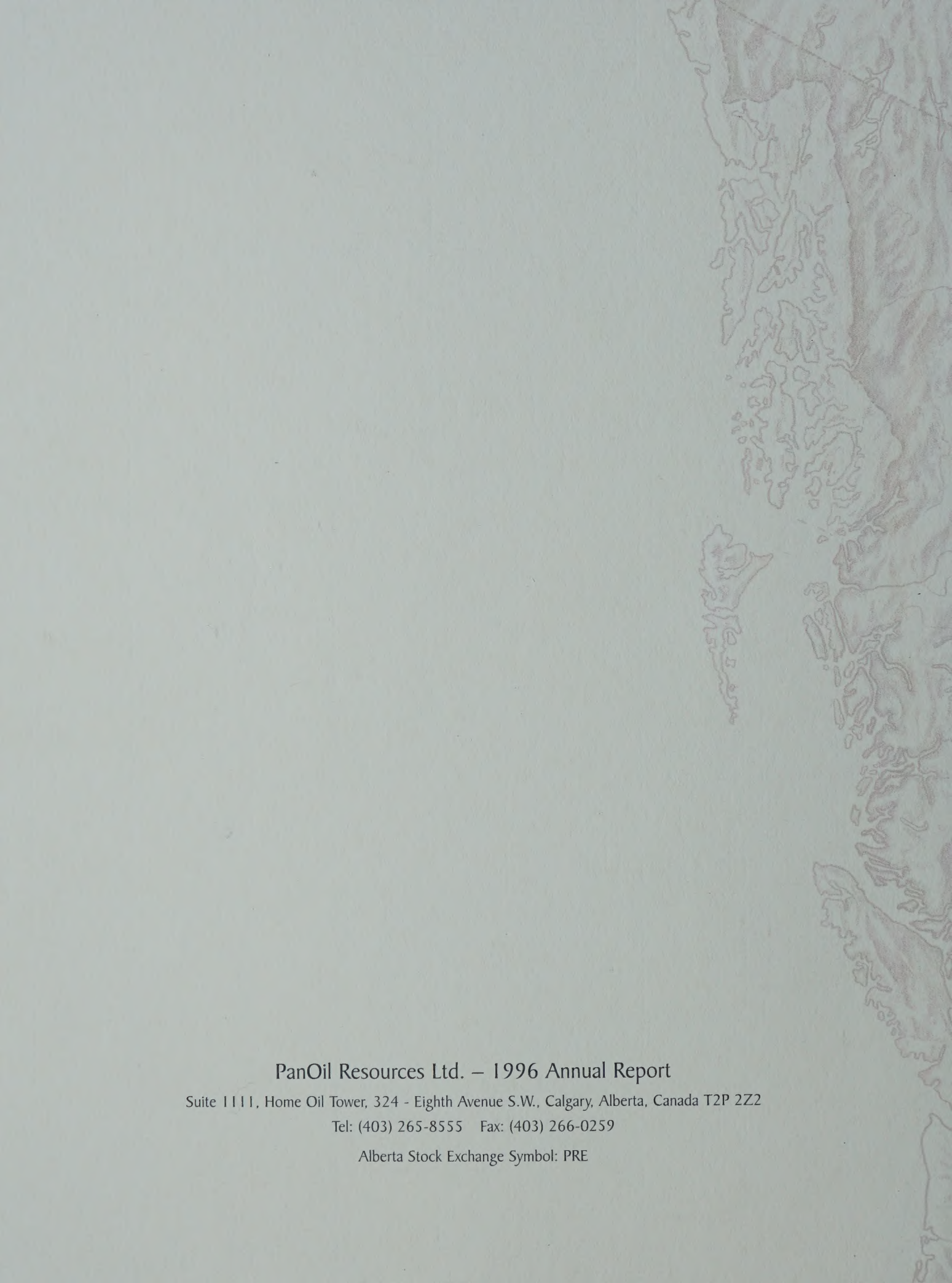
Alberta Stock Exchange
Symbol PRE

Shareholder/Investor Inquiries

John B. Maher
(403) 265-8555

Head Office Address

Suite 1111, Home Oil Tower
324 - 8 Avenue S.W.
Calgary, Alberta, Canada T2P 2Z2
Phone: (403) 265-8555
Fax: (403) 266 -0259

A faint, stylized map of Western Canada, including British Columbia, Alberta, and Saskatchewan, is visible in the background. The map is rendered in a light, textured style, showing the outlines of the provinces and major geographical features like the Rocky Mountains and the coastlines.

PanOil Resources Ltd. – 1996 Annual Report

Suite 1111, Home Oil Tower, 324 - Eighth Avenue S.W., Calgary, Alberta, Canada T2P 2Z2

Tel: (403) 265-8555 Fax: (403) 266-0259

Alberta Stock Exchange Symbol: PRE